

**REPORT OF THE AUDIT OF THE  
ROWAN COUNTY  
SHERIFF**

**For The Year Ended  
December 31, 2010**



**CRIT LUALLEN  
AUDITOR OF PUBLIC ACCOUNTS  
[www.auditor.ky.gov](http://www.auditor.ky.gov)**

**209 ST. CLAIR STREET  
FRANKFORT, KY 40601-1817  
TELEPHONE (502) 564-5841  
FACSIMILE (502) 564-2912**



## **EXECUTIVE SUMMARY**

### **AUDIT EXAMINATION OF THE ROWAN COUNTY SHERIFF**

**For The Year Ended  
December 31, 2010**

The Auditor of Public Accounts has completed the Rowan County Sheriff's audit for the year ended December 31, 2010. Based upon the audit work performed, the financial statement presents fairly, in all material respects, the revenues, expenditures, and excess fees in conformity with the regulatory basis of accounting.

#### **Financial Condition:**

Excess fees increased by \$17,698 from the prior year, resulting in excess fees of \$100,753 as of December 31, 2010. Revenues increased by \$23,458 from the prior year and expenditures increased by \$5,760.

#### **Report Comments:**

2010-01 The Sheriff Has \$625 Of Disallowed Expenditures

2010-02 The Sheriff Should Improve Controls Over Receipts, Disbursements, And Reporting Functions

#### **Deposits:**

The Sheriff's deposits were insured and collateralized by bank securities.



## CONTENTS

PAGE

INDEPENDENT AUDITOR'S REPORT .....	1
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS .....	3
NOTES TO FINANCIAL STATEMENT .....	6
REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS .....	13
COMMENTS AND RECOMMENDATIONS .....	17





**CRIT LUALLEN**  
**AUDITOR OF PUBLIC ACCOUNTS**

The Honorable Jim Nickell, Rowan County Judge/Executive  
The Honorable Jack Carter, Rowan County Sheriff  
Members of the Rowan County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of revenues, expenditures, and excess fees - regulatory basis of the Sheriff of Rowan County, Kentucky, for the year ended December 31, 2010. This financial statement is the responsibility of the Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a regulatory basis of accounting that demonstrates compliance with the laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the revenues, expenditures, and excess fees of the Sheriff for the year ended December 31, 2010, in conformity with the regulatory basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated June 13, 2011 on our consideration of the Rowan County Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



The Honorable Jim Nickell, Rowan County Judge/Executive  
The Honorable Jack Carter, Rowan County Sheriff  
Members of the Rowan County Fiscal Court

Based on the results of our audit, we have presented the accompanying comments and recommendations, included herein, which discusses the following report comments:

2010-01 The Sheriff Has \$625 Of Disallowed Expenditures

2010-02 The Sheriff Should Improve Controls Over Receipts, Disbursements, And Reporting Functions

This report is intended solely for the information and use of the Sheriff and Fiscal Court of Rowan County, Kentucky, and the Commonwealth of Kentucky and is not intended to be and should not be used by anyone other than these interested parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen  
Auditor of Public Accounts

June 13, 2011



ROWAN COUNTY  
JACK CARTER, SHERIFF  
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS

For The Year Ended December 31, 2010

Revenues

Federal Grants		\$	24,462
State Grants			7,892
State - Kentucky Law Enforcement Foundation Program Fund (KLEFPF)			33,510
State Fees For Services:			
Finance and Administration Cabinet	\$	88,311	
Court Security		24,493	
Cabinet For Health And Family Services		<u>7,622</u>	120,426
Circuit Court Clerk:			
Fines and Fees Collected			470
Fiscal Court			152,547
County Clerk - Delinquent Taxes			25,953
Commission On Taxes Collected			339,926
Fees Collected For Services:			
Auto Inspections		6,742	
Add-on Fees		56,020	
Serving Papers		38,835	
Carrying Concealed Deadly Weapon Permits		<u>3,555</u>	105,152
Other:			
Miscellaneous			6,294
Interest Earned			93
Borrowed Money:			
State Advancement			<u>142,500</u>
Total Revenues			959,225

The accompanying notes are an integral part of this financial statement.

ROWAN COUNTY  
 JACK CARTER, SHERIFF  
 STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS  
 For The Year Ended December 31, 2010  
 (Continued)

Expenditures

Operating Expenditures and Capital Outlay:

Personnel Services-

Deputies' Salaries	\$	230,412
Part-Time Salaries		68,276
Other Salaries		106,929
Overtime		687

Employee Benefits-

Employer's Share Social Security		35,666
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Contracted Services-

Advertising		913
Vehicle Maintenance and Repairs		54,735

Materials and Supplies-

Office Materials and Supplies		11,813
Computer Software		6,337
Uniforms		10,959

Other Charges-

Conventions and Travel		7,673
Dues		711
Postage		5,772
Cell Phone/Pager/Radio		10,333
Deputy Expense Reimbursements		1,749
Fiscal Court Paper Service Fees		9,530
Miscellaneous		2,020
Contracted Services		6,110

Capital Outlay-

Office Equipment		15,595
Vehicles		7,732
		<hr/>
	\$	593,952

The accompanying notes are an integral part of this financial statement.

ROWAN COUNTY  
 JACK CARTER, SHERIFF  
 STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS  
 For The Year Ended December 31, 2010  
 (Continued)

Expenditures (Continued)

Debt Service:

State Advancement	\$	142,500	
Vehicle Payments		<u>37,481</u>	<u>\$ 179,981</u>

Total Expenditures			\$ 773,933
Less: Disallowed Expenditures			
Penalties and Interest		(235)	
Reimbursements		<u>(390)</u>	<u>(625)</u>
Total Allowable Expenditures			<u>773,308</u>
Net Revenues			185,917
Less: Statutory Maximum			<u>81,540</u>
Excess Fees			104,377
Less: Training Incentive Benefit			<u>3,624</u>
Excess Fees Due County for 2011			100,753
Payment to Fiscal Court - May 23, 2011			<u>90,000</u>
Balance Due Fiscal Court at Completion of Audit			<u><u>\$ 10,753</u></u>

The accompanying notes are an integral part of this financial statement.

ROWAN COUNTY  
NOTES TO FINANCIAL STATEMENT

December 31, 2010

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of revenues over expenditures to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

KRS 64.820 directs the fiscal court to collect any amount, including excess fees, due from the Sheriff as determined by the audit. KRS 134.310 requires the Sheriff to settle excess fees with the fiscal court at the time he files his final settlement with the fiscal court.

The financial statement has been prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this regulatory basis of accounting revenues and expenditures are generally recognized when cash is received or disbursed with the exception of accrual of the following items (not all-inclusive) at December 31 that may be included in the excess fees calculation:

- Interest receivable
- Collection on accounts due from others for 2010 services
- Reimbursements for 2010 activities
- Tax commissions due from December tax collections
- Payments due other governmental entities for payroll
- Payments due vendors for goods or services provided in 2010

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

ROWAN COUNTY  
NOTES TO FINANCIAL STATEMENT  
December 31, 2010  
(Continued)

Note 2. Employee Retirement System

The county official and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost sharing, multiple employer defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability and death benefits to plan members. Benefit contributions and provisions are established by statute.

Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. Nonhazardous covered employees who begin participation on or after September 1, 2008 are required to contribute 6 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 16.16 percent for the first six months and 16.93 percent for the last six months.

Hazardous covered employees are required to contribute 8 percent of their salary to the plan. Hazardous covered employees who begin participation on or after September 1, 2008 are required to contribute 9 percent of their salary to be allocated as follows: 8% will go to the member's account and 1% will go to the KRS insurance fund. The county's contribution rate for hazardous employees was 32.97 percent for the first six months and 33.25 percent for the last six months.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Nonhazardous employees who begin participation on or after September 1, 2008 must meet the rule of 87 (members age plus years of service credit must equal 87, and the member must be a minimum of 57 years of age) or the member is age 65, with a minimum of 60 months service credit.

Aspects of benefits for hazardous employees include retirement after 20 years of service or age 55. For hazardous employees who begin participation on or after September 1, 2008 aspects of benefits include retirement after 25 years of service or the member is age 60, with a minimum of 60 months of service credit.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, KY 40601-6124, or by telephone at (502) 564-4646.

ROWAN COUNTY  
NOTES TO FINANCIAL STATEMENT  
December 31, 2010  
(Continued)

Note 3. Deposits

The Rowan County Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the Sheriff's deposits may not be returned. The Rowan County Sheriff does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of December 31, 2010, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Note 4. Leases

- A. On January 11, 2006, the Sheriff's office entered into a lease agreement with Xerox to lease a copy machine as well as provide maintenance and supplies for the machine for the Sheriff's office. The agreement requires 60 monthly base payments of \$204 plus additional charges if the maximum number of copies is exceeded. As of December 31, 2010, the lease was paid in full.
- B. On December 31 2009, the Sheriff's office entered into a lease agreement with U.S. Bank to lease a 2009 Ford Crown Victoria. The agreement requires 36 equal monthly payments of \$337 to be paid in full on December 30, 2012. As of December 31, 2010, the lease was paid in full.
- C. On December 1, 2010, the Sheriff's office entered into a lease agreement with U.S. Bank to lease a 2010 Mercury Grand Marquis. The agreement requires 48 equal monthly payments of \$469 commencing on January 10, 2011 to be paid in full on December 10, 2014. As of December 31, 2010, the lease principal outstanding was \$20,124.
- D. On December 6, 2010, the Sheriff's office entered into a lease agreement with American Business Systems, Inc. to lease a copy machine. The agreement requires 60 monthly base payments of \$211. The Sheriff's office is in compliance with the terms of the agreement as of December 31, 2010.

ROWAN COUNTY  
NOTES TO FINANCIAL STATEMENT  
December 31, 2010  
(Continued)

Note 5. Federal Grant

The Rowan County Sheriff's office was awarded a Domestic Violence Enforcement Grant from the United States Department of Justice in the amount of \$30,172. During 2010, funds totaling \$24,462 were received and expended.

Note 6. Asset Forfeiture Account

The Rowan County Sheriff's office maintains an asset forfeiture account. This account is funded by proceeds from the confiscation, surrender, or sale of real and personal property involved in drug-related convictions. Receipts during the year were \$18,503 including \$8 in interest income. Disbursements during the year totaled \$10,391. As of December 31, 2010, the ending balance was \$8,112.

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND  
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL  
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS





CRIT LUALLEN  
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Jim Nickell, Rowan County Judge/Executive  
The Honorable Jack Carter, Rowan County Sheriff  
Members of the Rowan County Fiscal Court

Report On Internal Control Over Financial Reporting And  
On Compliance And Other Matters Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards

We have audited the statement of revenues, expenditures, and excess fees - regulatory basis of the Rowan County Sheriff for the year ended December 31, 2010, and have issued our report thereon dated June 13, 2011. The Sheriff's financial statement is prepared in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Rowan County Sheriff's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the Sheriff's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Sheriff's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified a certain deficiency in internal control over financial reporting, described in the accompanying comments and recommendations as item 2010-02 that we consider to be a significant deficiency in internal control over financial reporting.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.



Report On Internal Control Over Financial Reporting And  
On Compliance And Other Matters Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards  
(Continued)

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Rowan County Sheriff's financial statement for the year ended December 31, 2010, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that is required to be reported under Government Auditing Standards and which is described in the accompanying comments and recommendations as item 2010-01.

The Rowan County Sheriff's responses to the findings identified in our audit are included in the accompanying comments and recommendations. We did not audit the Sheriff's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, the Rowan County Fiscal Court, and the Department for Local Government and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



Crit Luallen  
Auditor of Public Accounts

June 13, 2011

## COMMENTS AND RECOMMENDATIONS



ROWAN COUNTY  
JACK CARTER, SHERIFF  
COMMENTS AND RECOMMENDATIONS

For The Year Ended December 31, 2010

STATE LAWS AND REGULATIONS:

2010-01 The Sheriff Has \$625 Of Disallowed Expenditures

In Funk v. Milliken, 317 S.W.2d 499 (Ky. 1958), Kentucky's highest court ruled that county fee officials' expenditures of public funds will be allowed only if they are necessary, adequately documented, reasonable in amount, beneficial to the public, and not primarily personal in nature. Testing performed during the audit found \$235 of expenditures for penalties and interests and \$390 of reimbursements that were personal in nature. Disallowed expenditures should be repaid with a deposit of personal funds. In June 2011, the Sheriff deposited personal funds of \$625 to reimburse the 2010 fee account for these expenditures.

*Sheriff's Response: This has been re-paid.*

INTERNAL CONTROL - SIGNIFICANT DEFICIENCY:

2010-02 The Sheriff Should Improve Controls Over Receipts, Disbursements, And Reporting Functions

During audit procedures, we noted the receipts and disbursements ledgers were not accurate and auditors had to post additional receipts and expenditures. Since the ledgers are used to compile the financial statement, the omission of these items resulted in the Sheriff's financial statement being understated by \$15,137 in receipts and \$17,377 in disbursements. Proper controls include having an independent person reconcile the ledgers to bank information to ensure that any omissions or errors are detected and corrected in a timely manner. We recommend the sheriff be more diligent in posting to the receipts and disbursements ledgers and implement proper controls to ensure accuracy.

*Sheriff's Response: We are working on improving this.*

